MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BAC4634 – CORPORATE ACCOUNTING II

(All sections / Groups)

6 MARCH 2017
2.30 p m – 5.30 p m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SEVEN (7)** pages excluding the cover page with **FOUR (4)** Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks is shown at the end of each question.

3. Please write all your answers in the answer booklet provided.

QUESTION 1 (25 MARKS)

PART A

Purple Berhad was incorporated on 1 January 2015 and engaged in the business of supplying office furniture. During the year ended 31 December 2015, Purple Berhad had the following transactions:

i. In January 2015, Purple Berhad purchased a building for RM3 million with an estimated useful life of 40 years. It is the company's policy to depreciate the building on a straight line basis. On 31 December 2015, the building had been revalued to RM3.5 million. It is the company's policy to provide a full year's depreciation in the year of purchase and none in the year of disposal. For tax purposes, initial allowance of 10% and annual allowance of 5% are given for such buildings. The company has no intention to dispose the revalued building. (Ignore deferred tax on revaluation)

ii. Research cost of RM100,000 was written off to profit or loss, whilst the development cost of RM450,000 that met the criteria for capitalisation was recognised as an asset.

iii. Purple Berhad had trade receivables of RM500,000 and an allowance for doubtful debts of 10% has been made for the year.

Income tax rate is 25% for the year ended 31 December 2015.

Required:

In accordance to MFRS 112: *Income Taxes*:

a) Calculate the deferred tax asset or deferred tax liabilities as at 31 December 2015 arising from the above transactions.

(14 Marks)

b) Prepare the journal entries for the deferred tax in year 2015.

(4 Marks)

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PART B

Brown Berhad engages in five different business segments that are reported internally as shown below:

Segments	Property development	Education	Medical	Oil and gas	Automobile
Revenue	15%	35%	30%	9%	11%
Profit	35%	30%	20%	8%	7%
Assets	40%	35%	15%	6%	4%

Required:

Using the quantitative thresholds from MFRS 8: *Operating* Segments, briefly explain the reportable segments for Brown Berhad.

(7 Marks)

(Total: 25 Marks)

QUESTION 2 (25 MARKS)

On 1 January 2015, Green Berhad purchased 100 percent of the equity of Yellow Ltd for FCU1,980 when the fair value of Yellow Ltd's identifiable assets and liabilities was FCU1,800 an the exchange rate was RM1=FCU2.

The Green Group consists of a parent company (Green Berhad) and its subsidiary (Yellow Ltd).

Green Berhad's functional currency is the Ringgit Malaysia (RM) and Yellow Ltd's functional currency unit (FCU).The group's presentation currency for its consolidated financial statements is the RM.

The exchange rate at 31 December 2015 was RM1=FCU2.2 and the average rate for 2015 was RM1=FCU2.05.

The statement of financial position and statement of profit or loss and comprehensive income for the year ended 31 December 2015, for Green Berhad and Yellow Ltd are as follows:

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Statement of financial position as at 31 December

	Green Berhad		Yellow Ltd	
	2015 RM	2014 RM	2015 FCU	2014 FCU
Non-current assets				
Property, plant and equipment	960	1,000	1,450	1,500
Investment in Yellow Ltd	990	-	-	-
	1,950	1,000	1,450	1,500
Current assets				
Inventory	341	500	400	600
Trade and other receivables	100	200	200	200
Cash	1,325	2,000	370	100
	1,766	2,700	970	900
	3,716	3,700	2,420	2,400
Equity and liabilities				
Share capital	1,000	1,000	1,600	1,600
Retained earnings	916	800	270	200
Trade and other payables	300	400	550	600
Bank loan	1,500	1,500	-	-
Total liabilities and equity	3,716	3,700	2,420	2,400

Statement of profit or loss and comprehensive income for the year ended 31 December

	Green Berhad	Yellow Ltd
	2015 RM	2015 FCU
Revenue	600	500
Cost of sales	(250)	(200)
Gross profit	350	300
Distribution costs	(100)	(130)
Administrative cost	(100)	(100)
Finance expense	(34)	-
Profit for the year	116	70

Required:

In accordance to MFRS121: *The Effects of Changes in Foreign Exchange Rates*:

a) Translate the financial statements of Yellow Ltd.

(13 Marks)

Continued...

b) Prepare the reconciliation of exchange difference.

(2 Marks)

c) Prepare the Green Group's consolidated financial statement for the year ended 31 December 2015.

(10 Marks)

(Total: 25 Marks)

QUESTION 3 (25 MARKS)

PART A

ABC Bhd purchased a non-current asset for RM10 million on 1st January 2011. The estimated useful life of this non-current asset is 10 years. On 1st of January 2013 it was revalued at RM8.8 million. On 31st December 2014 the company reviewed its asset for impairment loss if any. It was estimated on 31st December 2014 the projected cash flows relating to this asset were as follows:

Year ending	31st Dec 2015;	31st Dec 2016;	31st Dec 2017;	31st Dec 2018;	1st Dec 2019
Cash flows RM	2,000,000,	1,500,000,	1,200,000,	1,200,000,	1,000,000

The company used a discount rate of 10%. The directors used the above cash flow's present value and estimated the recoverable amount. Discounting factors are year 1: 0.909, year 2: 0.826, year 3: 0.751, year 4: 0.683 and year 5: 0.620.

Required:

In accordance with MFRS 136 Impairment of Assets record the appropriate accounting treatment for the above transactions.

a) Calculate the recoverable amount of non-current asset as on 31st December 2014. (rounding off to nearest 1,000).

(3 Marks)

b) Record the necessary journal entries every year in the books of ABC Bhd from 1st January 2011 to 31st December 2015.

(6 Marks)

c) Prepare the ledger account in respect of the following accounts from 1st January 2011 to 31st December 2015

i) The Non-current asset **(2 Marks)**

ii) Accumulated depreciation **(2 Marks)**

iii) Revaluation reserve if any **(2 Marks)**

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PART B

XYZ Bhd has a defined benefit plan for its employees. The following information is available as at 31st December.

	Year 2014	Year 2015
Present value of obligation	RM40,000	RM46,000
Fair value of plan assets	RM40,000	RM45,000
Expected return on plan assets		10%
Discount rate		10%
Current service cost 2015		RM3,860
Benefits paid at the end of the period		RM3,200
Contribution paid to the plan assets		RM3,200

Required:

Apply the appropriate accounting treatment in accordance with MFRS 119 Employees Benefits and disclose it in the statement of profit or loss and also in the statement of financial position at the end of year 2015.

(10 Marks)
(Total 25 Marks)

QUESTION 4 (25 MARKS)

PART A

Clone Sdn Bhd is a manufacturing company in which the owners are family members and they are also directors of the company. Due to misunderstanding among them in conducting the business they have decided to sell their business to a third party. Therefore, they starting searching buyers who are interested in the purchase. Since there is difference of opinion on arriving at the selling price among themselves, they have decided to approach a professional accountant who can evaluate the business based on some acceptable valuation methods. Being you are an accountant, they have asked for your opinion and assessment of the price per ordinary share a buyer who might be expected to offer. They have provided with you the following information.

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Statement of Financial position of Clone Sdn Bhd as at 31st December 2015

Assets		**RM**
Land		400,000
Buildings		850,000
Plant and equipment		950,000
Motor vehicles		120,000
Intangible assets		50,000
Current assets		
Inventories	220,000	
Accounts receivables	85,000	
Cash and bank balances	15,000	320,000
Total		**2,690,000**
Ordinary share capital of RM1each		1,500,000
Reserves		620,000
Loan (Secured on PPE)		500,000
Liabilities		70,000
Total		**2,690,000**

Additional information: -

i) The company made profit after tax and interest but before dividends over the past five years were as follows:
Year 2011- RM300,000; Year2012- RM350,000; Year 2013-RM350,000; Year 2014-RM400,000 & Year 2015-RM500,000

ii) The company's 5 years' plan forecast after tax profit will increase every year at the rate of 10% per annum over each of the year for next five years.

iii) The company was paying annual dividend every year RM225,000.

iv) The company appointed a qualified professional who valued the assets of the company as follows:

Land	RM 1,200,000
Buildings	RM 1,050,000
Plant and machinery	RM 750,000
Motor vehicles	RM 60,000
Intangible assets	RM 150,000
Inventories	RM 200,000
Accounts receivables	RM 70,000

Continued...

v) The average dividend yield and the P/E ratio of three public listed companies in the same industry as Clone Sdn Bhd are as follows:

	A Bhd	B Bhd	C Bhd
P/E ratio	8.5	10.0	12.00
Dividend yield	12	10	13.00

vi) It is estimated that the future net cash flows which would accrue to the buyer company for 5 years as follows and the company apply an after tax cost of capital of 12%.

Year 1 ..... RM500,000
Year 2 ..... RM550,000
Year 3 ..... RM600,000
Year 4 ..... RM600,000
Year 5 ..... RM750,000

The present value (P/V) of RM1 is discounted at 12%

Year 1 ..... 0.893
Year 2 ..... 0.797
Year 3 ..... 0.712
Year 4 ..... 0.636
Year 5 ..... 0.567

vii) Goodwill is estimated based on 3 years purchase price of 5 years average profit.

viii) Assumptions if any must be clearly stated.

Required:

Evaluate the business under the following different methods and suggest the price range for a share which the prospective purchasers might make.

a) Asset based value **(4 Marks)**
b) Asset based value with goodwill **(3 Marks)**
c) Entity based valuation – with net present value **(5 Marks)**
d) Market based valuation – price earnings ratio **(5 Marks)**
e) Dividend yield method **(3 Marks)**

PART B

Valuation of business can be described as 'sophisticated guess work'. It is largely based on estimates. After arriving at the price per share the final price will be agreed between parties after lot of negotiations and bargaining. Before finalising the price while valuing a business many factors will be considered by the buyer. Explain any five factors in valuing the business.

(5 Marks)
(Total 25 Marks)
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